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In the Supreme Court of the United States

No. 05-130

EBAY INC. AND HALF.COM, INC.,
PETITIONERS

v.

MERCEXCHANGE, L.L.C.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE SUPPORTING RESPONDENT

INTEREST OF THE UNITED STATES

The United States has a strong interest, encompassing a variety of perspectives, in the scope of judicial remedies for patent infringement. Pursuant to the Patent Clause of the Constitution, U.S. Const. Art. I, § 8, Cl. 8, Congress has charged the United States Patent and Trademark Office (PTO), an agency of the Department of Commerce, with responsibility for examining patent applications, issuing patents, and advising the President on domestic and international issues of patent policy. See 35 U.S.C. 1 *et seq.* The United States is regularly engaged in litigation over the validity and scope of patents, sometimes as a patent holder but more commonly as a defendant in infringement actions. Although the United States (as well as its agents and contractors) is not subject to injunctive relief for patent infringement, see 28 U.S.C. 1498(a), it may seek such relief as a patent holder. Furthermore, the United States has entered into

international agreements that address remedies for patent infringement. See, *e.g.*, Agreement on Trade-Related Aspects of Intellectual Property Rights, Dec. 15, 1993, arts. 28, 31, 33 I.L.M. 81, 94, 95 (TRIPS Agreement) (defining minimum rights of patent holders and restricting compulsory licensing). And because the grant or denial of patent injunctions may directly affect competition and innovation in the marketplace, this case implicates questions of core concern to both the Federal Trade Commission (FTC) and the Antitrust Division of the United States Department of Justice.[1]

STATEMENT

Respondent MercExchange, L.L.C. sued petitioners eBay Inc. and Half.com, Inc., in the United States District Court for the Eastern District of Virginia, alleging, among other things, willful infringement of U.S. Patent No. 5,845,265 ('265 patent), involving the marketing of goods through an electronic network. See Pet. App. 1a. A jury returned a verdict upholding the validity of the '265 patent and finding that petitioners had willfully infringed that patent and a related patent, and it awarded $35 million in damages. See *id.* at 2a, 29a. The district court reduced the damage award to $29.5 million and declined to impose permanent injunctive relief. See *id.* 3a, 51a, 73a. On cross-appeals, the Federal Circuit affirmed in part, reversed in part, vacated in part, and remanded for further proceedings. See *id.* at 3a, 28a. In particular, the court of appeals reversed the district court's denial of a per-

[1] See generally, FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (Oct. 2003) (*FTC Report*) <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>; Office of the Attorney General, U.S. Dep't of Justice, *Report of the Department of Justice's Task Force on Intellectual Property* (Oct. 2004) <http://www.usdoj.gov/olp/ip_task_force_report.pdf>; U.S. Dep't of Justice & FTC, *Antitrust Guidelines for the Licensing of Intellectual Property* (Apr. 6, 1995) (*Licensing Guidelines*), *reprinted in* 4 Trade Reg. Rep. (CCH) 20,723 (1995) <http://www.usdoj.gov/atr/public/guidelines/0558.pdf>.

manent injunction and remanded that matter for further proceedings. *Ibid.*

A. The Statutory Remedies For Patent Infringement

The Patent Clause of the Constitution empowers Congress "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to * * * Inventors the exclusive Right to their * * * Discoveries." U.S. Const. Art. 1, § 8, Cl. 8. Congress has implemented the Patent Clause through statutory enactments, commonly known as the Patent Acts, that have set out the conditions for obtaining a patent.[2]

The Patent Act of 1952, as amended, provides the currently controlling law governing the issuance of patents. See 35 U.S.C. 1 *et seq.* The Patent Act confers on a patent recipient, "[a]s a reward for inventions and to encourage their disclosure," *Universal Oil Prods. Co.* v. *Globe Oil & Refining Co.*, 322 U.S. 471, 484 (1944), the "right to exclude others from making, using, offering for sale, or selling the invention throughout the United States." 35 U.S.C. 154(a)(1). To protect and enforce that right, the Patent Act further provides that the patentee "shall have remedy by civil action for infringement of his patent." 35 U.S.C. 281. The Patent Act guarantees to prevailing patentees "damages adequate to compensate for the infringement," which "in no event [shall be] less than a reasonable royalty for the use made of the invention by the infringer," and which may, in appropriate cases, be multiplied up to three times. 35 U.S.C. 284. The successful patentee is entitled to costs and interest as a matter of course, *ibid.*, and, "in exceptional cases," may recover reasonable attorney fees, 35 U.S.C. 285.

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[2] See, *e.g.*, Patent Act of 1790, ch. 7, 1 Stat. 109; Patent Act of 1793, ch. 11, 1 Stat. 318; Patent Act of 1836, ch. 357, 5 Stat. 117; Patent Act of 1839, ch. 88, 5 Stat. 353; Patent Act of 1870, ch. 230, 16 Stat. 198; Patent Act of 1939, ch. 450, 53 Stat. 1212; Patent Act of 1952, ch. 950, 66 Stat. 792.

The Patent Act also authorizes the district courts to protect a patentee's rights through injunctive relief. 35 U.S.C. 283. Congress first authorized injunctive relief as a permissible remedy for patent infringement more than 185 years ago, providing that the federal courts adjudicating patent disputes "shall have authority to grant injunctions according to the course and principles of courts of equity." Act of Feb. 15, 1819, ch. 19, 3 Stat. 481. Although Congress has regularly revisited the patent laws, it has left that grant of equity jurisdiction essentially unchanged.[3] In its current iteration, adopted in 1952, the Patent Act authorizes district courts to grant injunctive relief in the following terms:

> The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

35 U.S.C. 283.

B. The Proceedings Below

1. Following lengthy pretrial proceedings and a five-week trial in which the jury found, among other things, that MercExchange's '265 patent was valid and had been willfully infringed by petitioners, the district court considered post-trial motions, including MercExchange's request under 35

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[3] See, *e.g.*, Patent Act of 1836, ch. 357, § 17, 5 Stat. 117 ("courts shall have power, upon bill in equity filed by any party aggrieved * * * to grant injunctions, according to the course and principles of courts of equity"); Patent Act of 1870, ch. 230, § 55, 16 Stat. 206 ("the court shall have power, upon bill in equity filed by any party aggrieved, to grant injunctions according to the course and principles of courts of equity"); Patent Act of 1897, ch. 391, § 6, 29 Stat. 694 ("The several courts vested with jurisdiction of cases arising under the patent laws shall have power to grant injunctions according to the course and principles of equity, to prevent the violation of any right secured by patent, on such terms as the court may deem reasonable."); Patent Act of 1922, ch. 58, § 8, 42 Stat. 392 (same); Patent Act of 1946, ch. 726, 60 Stat. 778 (same).

U.S.C. 283 for injunctive relief. See Pet. App. 2a-3a, 29a-74a. The district court denied MercExchange's request for a permanent injunction. *Id.* at 52a-59a.

The district court stated that, under Federal Circuit case law, "an injunction should issue once infringement has been established unless there is sufficient reason for denying it." Pet. App. 52a (citing *W.L. Gore & Assocs. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988)). The district court nevertheless recognized that "the decision to grant or deny injunctive relief remains within the discretion of the trial judge," *ibid.*, and it separately analyzed the four factors that traditionally govern equitable relief: (1) the likelihood of irreparable injury; (2) the inadequacy of legal remedies; (3) the balance of hardship between the parties; and (4) and the public interest, *id.* at 53a (citing *Odetics, Inc. v. Storage Tech. Corp.*, 14 F. Supp. 2d 785, 794 (E.D. Va. 1998), aff'd, 185 F.3d 1259 (Fed. Cir. 1999)). See generally *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312-313 (1982).

The district court concluded that the "irreparable harm" factor counseled against issuing an injunction. Pet. App. 53a-55a. The court stated that, because MercExchange had established both the validity of its patent and the likelihood of continuing infringement, "immediate irreparable harm is presumed." *Id.* at 53a (quoting *Odetics*, 14 F. Supp. 2d at 794, and *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir.), cert. denied, 464 U.S. 996 (1983)). The court concluded, however, that petitioners had adduced sufficient evidence at trial to overcome that presumption, reasoning that "the evidence of [MercExchange's] willingness to license its patents, its lack of commercial activity in practicing the patents, and its comments to the media as to its intent [to seek monetary compensation rather than an injunction] are sufficient to rebut the presumption that [MercExchange] will suffer irreparable harm if an injunction does not issue." *Id.* at

55a.[4] The district court correspondingly determined that MercExchange had an adequate remedy at law, emphasizing that MercExchange had "licensed its patents to others in the past and has indicated its willingness to license the patents to [petitioners]" as well. *Id.* at 55a-56a.

The district court concluded that the "public interest" considerations were in equipoise. Pet. App. 56a-58a. The court stated that the public interest in maintaining the integrity of the patent system usually favors equitable enforcement of a patentee's right to exclude. *Id.* at 56a. But the court expressed concern that, in this case, the infringed patents were so-called "business-method patents," which the court described as the subject of "growing concern" to the public. *Id.* at 57a. That fact, the court determined, tended to weigh against the issuance of an injunction, particularly because MercExchange did not itself practice its patents. *Ibid.*

The district court further concluded that the "balance of the hardships" favored petitioners. Pet. App. 58a-59a. It concluded that damages would adequately compensate MercExchange for any future infringement and that an injunction would "open[] a Pandora's box of new problems," including "contempt hearing after contempt hearing," as petitioners attempted to reconfigure their systems to avoid infringement. *Ibid.* The court suggested that future infringement could be adequately deterred by the prospect of enhanced damages. *Id.* at 59a.

2. The court of appeals affirmed the jury's finding of validity and willful infringement of the '265 patent, but reversed other aspects of the verdict, which effectively reduced the award for past damages to $25 million, and remanded for fur-

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[4] The court also noted that MercExchange "never moved this court for a preliminary injunction"—a factor that, although "certainly not dispositive," tended in the district court's view to undercut the presumption of irreparable harm. Pet. App. 55a.

ther proceedings on an infringement claim that the district court had resolved through summary judgment. Pet. App. 1a-28a. Most significantly for present purposes, the court of appeals reversed the district court's denial of a permanent injunction. *Id.* at 3a, 26a-28a.

The court of appeals stated that, "[b]ecause the 'right to exclude recognized in a patent is but the essence of the concept of property,' the general rule is that a permanent injunction will issue once infringement and validity have been adjudged." Pet. App. 26a (quoting *Richardson* v. *Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir.), cert. denied, 493 U.S. 853 (1989)). The court acknowledged that district courts "have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest." *Id.* at 26a (quoting *Rite-Hite Corp.* v. *Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir.), cert. denied, 516 U.S. 867 (1995)). It cited, as an example, the public's need for use of "an invention to protect the public health." *Ibid.* But it concluded that the district court "did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction." *Ibid.*

The court of appeals examined and rejected each of the district court's reasons for denying injunctive relief. "A general concern regarding business-method patents," the court explained, cannot justify "the unusual step" of denying a permanent injunction. Pet. App. 26a. Nor was it relevant, the court added, that future disputes might arise and require successive contempt hearings: "A continuing dispute of that sort is not unusual in a patent case, and even absent an injunction, such a dispute would be likely to continue in the form of successive infringement actions if the patentee believed the defendant's conduct continued to violate its rights." *Id.* at 27a.

The court of appeals also found nothing significant in the fact that MercExchange licenses, rather than uses, its patents. A patentee's willingness to negotiate a license, the court stated, "should not * * * deprive it of the right to an injunction to which it would otherwise be entitled." Pet. App. 27a. MercExchange was therefore entitled to enforce its statutory right to exclude, even if only to increase its leverage in license negotiations. Such leverage, the court stated, "is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers." *Ibid.*[3] Accordingly, the court of appeals adhered to what it described as "the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances," and it reversed the district court's denial of MercExchange's motion for a permanent injunction. *Id.* at 28a.

SUMMARY OF ARGUMENT

The court of appeals did not accurately articulate in its opinion the principles governing a patentee's right to equitable relief, but that court reached the correct result in reversing the district court's denial of MercExchange's request for a permanent injunction. The judgment of the court of appeals should therefore be affirmed.

I. A. The Patent Act of 1952 grants a district court discretionary authority to issue injunctive relief to prevent the continuing infringement of a patent that has been adjudged valid. See 35 U.S.C. 283. Despite references to a "general

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[3] Additionally, the court held, it was irrelevant that MercExchange had failed to seek a preliminary injunction, because preliminary and permanent injunctions "are distinct forms of equitable relief that have different prerequisites and serve entirely different purposes." Pet. App. 27a-28a (quoting *Lerner Germany GmbH* v. *Lerner Corp.*, 94 F.3d 1575, 1577 (Fed. Cir. 1996), cert. denied, 519 U.S. 1059 (1997)).

rule" favoring injunctive relief, the Federal Circuit has correctly recognized that the district court's grant of injunctive relief is discretionary. See *Roche Prods., Inc.* v. *Bolar Pharm. Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984), cert. denied, 469 U.S. 856 (1984).

B. The Patent Act's provision that injunctions shall issue "in accordance with the principles of equity," 35 U.S.C. 283, directs the district courts to issue injunctions in accordance with the familiar four-factor test set out in *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305 (1982). Although the court of appeals did not recite that four-factor test in reviewing the district court's exercise of discretion, that test provides the appropriate framework for disciplined evaluation of the special considerations that apply to patent claims.

C. Because a patent confers a statutory right to exclude others from using a patented invention, continuing infringement will normally result in irreparable injury that cannot be adequately compensated by a court-imposed "reasonable royalty" for future use. Nevertheless, neither the Patent Act nor this Court's decisions categorically require injunctive relief. Irreparable injury and inadequacy of monetary relief will not be present in every case. Moreover, a district court's consideration of the balance of hardships and the public interest may counsel against injunctive relief in some situations. By the same token, however, there is no basis for withholding injunctive relief in response to general concerns about potential abuse of the patent system. The decision whether injunctive relief is appropriate must necessarily turn on the facts of each case.

D. In this case, although the court of appeals did not invoke the traditional four-factor test, it correctly recognized that the district court had improperly relied on inappropriate considerations, which amounted to an abuse of discretion, and the court of appeals therefore properly reversed the district

court's denial of MercExchange's request for an injunction. The judgment of the court of appeals should be affirmed, and the case should return to the district court for entry of an appropriate decree.

II. There is no warrant for this Court to overrule its decision in *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), or its other decisions addressing the appropriateness of granting injunctions in patent cases. The Court correctly held in *Continental Paper Bag* that a federal court may grant a patentee an injunction preventing continuing infringement even if the patentee has "unreasonab[ly]" failed to practice its own invention. *Id.* at 429-430. That holding, which preserves an equitable court's traditional discretion to grant or withhold relief, subject to review for abuse of discretion, is consistent with the governing legal principles.

ARGUMENT

I. THE COURT OF APPEALS' JUDGMENT, WHICH REVERSED THE DISTRICT COURT'S DENIAL OF THE PATENTEE'S MOTION FOR A PERMANENT INJUNCTION, SHOULD BE AFFIRMED

Petitioners argue that the Federal Circuit has adopted a "nearly-automatic injunction rule" (Pet. Br. 17, 26-28), has prevented the district courts from exercising their traditional equitable discretion in determining whether an injunction is appropriate in patent cases (*id.* at 20-26), and has applied an inappropriately demanding standard of review in place of the familiar abuse of discretion standard (*id.* at 28-41). The Federal Circuit's patent decisions have correctly recognized that injunctions issue as a matter of discretion, not as of right. At the same time, however, the court of appeals' opinion in this case does not acknowledge or articulate the traditional principles that govern the issuance of permanent injunctions. Patent litigants and the lower courts accordingly would benefit

from this Court's recapitulation of the controlling principles in light of the important consequences of patent litigation for competitiveness and technological progress. Application of those controlling principles supports issuance of an injunction in this case, and the judgment below should therefore be affirmed.

A. Section 283 Of The Patent Act Grants District Courts Discretionary Authority To Issue A Permanent Injunction As A Remedy For Patent Infringement

Petitioners and their amici are correct in construing Section 283 of the Patent Act to confer *discretionary* authority on district courts to grant injunctive relief as a remedy for patent infringement. The plain terms of Section 283, which provide that courts adjudicating patent disputes "may grant injunctions in accordance with the principles of equity," foreclose any other construction.[6] When Congress enacted Section 283, it did so against the backdrop of this Court's consistent statements that the similarly worded predecessor stat-

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[6] See *Jama* v. *ICE*, 543 U.S. 335, 346 (2005) ("The word 'may' customarily connotes discretion."); *Haig* v. *Agee*, 453 U.S. 280, 294 n.26 (1981) ("'[M]ay' expressly recognizes substantial discretion."). Compare 35 U.S.C. 283, with 35 U.S.C. 284 (the court "*shall* award the claimant damages") (emphasis added). Indeed, even less permissive language would not be construed to deprive district courts of their traditional equitable discretion. See *United States* v. *Oakland Cannabis Buyers' Coop.*, 532 U.S. 483, 496 (2001) ("[W]hen district courts are properly acting as courts of equity, they have discretion unless a statute clearly provides otherwise."); *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305, 313 (1982) ("Congress may intervene and guide or control the exercise of the court's discretion, but we do not lightly assume that Congress has intended to depart from established principles."); *Amoco Prod. Co.* v. *Village of Gambell*, 480 U.S. 531, 544 (1987) (injunctive relief discretionary in absence of "clear indication" that Congress "intended to deny federal district courts their traditional equitable discretion").

utes, see pp. 3-4, *supra*, conferred equitable discretion.[7] The Federal Circuit has emphatically expressed its correct understanding that Section 283 preserves that discretion:

> Section 283, by its terms, clearly makes the issuance of an injunction discretionary: the court "*may grant*" relief "*in accordance with the principles of equity.*" The trial court thus has considerable discretion in determining whether the facts of a situation require it to issue an injunction.

Roche Prods., Inc. v. *Bolar Pharm. Co.*, 733 F.2d 858, 865 (Fed. Cir.), cert. denied, 469 U.S. 856 (1984).

Since its decision in *Roche Products*, however, the Federal Circuit has stated on several occasions—including the case below—that, as a "general rule," a patentee that establishes the validity of its patent and the fact of infringement is entitled to a permanent injunction prohibiting future infringement. Pet. App. 26a; see, *e.g.*, *Richardson* v. *Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir.) ("It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it."), cert. denied, 493 U.S. 853 (1989). The court below also referred to "the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances." Pet. App. 28a. Construed as enunciations of the governing legal rule, those statements would be erroneous; no "general rule" mandates injunctive relief in patent cases. The statements fare better, however, as descriptions of how the

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[7] See *Parks* v. *Booth*, 102 U.S. 96, 97 (1880) ("Federal courts vested with jurisdiction [upon a bill in equity] have power, in their discretion, to grant injunctions to prevent the violation of any right secured by a patent, as in other cases of equity cognizance."); see also *Rice & Adams Corp.* v. *Lathrop*, 278 U.S. 509, 514 (1929) (discretion in issuing interlocutory injunction); *Keyes* v. *Eureka Consol. Min. Co.*, 158 U.S. 150 (1895) (denying injunction on equitable grounds); *Lane & Bodley Co.* v. *Locke*, 150 U.S. 193, 200-201 (1893) (same); *Root* v. *Railway Co.*, 105 U.S. 189, 191-194 (1881) (describing the early American history of injunctive relief in patent disputes).

familiar our-factor test for injunctive relief will play out in the typical case.[8]

Contrary to petitioners' suggestions, the Federal Circuit's decisions, which cite *Roche Products* approvingly (*e.g.*, Pet. App. 26a), do not reject the principle that a "trial court thus has considerable discretion in determining whether the facts of a situation require it to issue an injunction" (*Roche Prods.*, 733 F.2d at 865), nor do those decisions announce a "nearly-automatic injunction rule" (Pet. Br. 17). Rather, those decisions repeat the past observations of courts and patent commentators that a patentee that has proved infringement of a valid patent and a continuing risk of infringement will usually be able to satisfy the traditional standards for obtaining injunctive relief.[9]

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[8] Compare *Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 197 (1980) ("The traditional remedy against * * * infringement is the injunction."), with *W.L. Gore & Assocs., Inc.* v. *Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988) ("Although the district court's grant or denial of an injunction is discretionary depending on the facts of the case, * * * injunctive relief against an adjudged infringer is usually granted."), and *KSM Fastening Sys., Inc.* v. *H.A. Jones Co.*, 776 F.2d 1522, 1524 (Fed. Cir. 1985) ("injunctive relief against an infringer is the norm").

[9] See *Odetics, Inc.*, 185 F.3d at 1272 ("Thus, while we have stated the general rule that an injunction should follow an infringement verdict [citing *Richardson*, 868 F. 2d at 1247], we also recognize that district courts, as befits a question of equity, enjoy considerable discretion in determining whether the facts of a situation require it to issue an injunction [citing *Roche Prods.*, 733 F.2d at 865]."). See also, *e.g.*, Donald S. Chisum, *Principles of Patent Law* 1342 (3d ed. 2004); 7 Ernest B. Lipscomb III, *Lipscomb's Walker on Patents* § 25:33, at 342-343 (1988 & Supp. 2004); Irving Kayton, *Kayton on Patents* 1-20 to 1-21 (1979); Note, *Injunctive Relief in Patent Infringement Suits*, 112 U. Pa. L. Rev. 1025, 1048 (1964); Note, *The Enforcement of Rights Against Patent Infringers*, 72 Harv. L. Rev. 328, 342 (1958).

B. Section 283 Of The Patent Act Additionally Directs That Such Injunctions Shall Be Issued In Accordance With The Familiar Principles Of Equity

Petitioners further contend (Pet. Br. 17, 20-21) that the Federal Circuit has "supplanted the district court's consideration of the fourfold 'principles of equity'"—requiring consideration of irreparable injury, adequacy of legal remedies, the balance of hardships, and the public interest—in favor of a "zero (or at most one) factor test" that is "the antithesis of the traditional four-factor approach." That characterization somewhat overstates the necessary import of the decision below, but it does raise a matter of valid concern.

Petitioners are certainly correct in their premise that Section 283, which provides that patent injunctions shall issue "in accordance with the principles of equity," 35 U.S.C. 283, directs the district courts, when adjudicating private patent rights, to issue injunctions in accordance with the familiar four-factor test. As this Court explained in *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305 (1982), "the basis for injunctive relief in the federal courts has always been irreparable injury and the inadequacy of legal remedies." *Id.* at 312. When the parties "present competing claims of injury," the court must also "balanc[e]" their interests in light of the possible injuries that might result from granting or denying the request for injunctive relief. *Ibid.* (quoting *Yakus* v. *United States*, 321 U.S. 414, 440 (1944)). Furthermore, the court "should pay particular regard for the public consequences in employing the extraordinary remedy of injunction." *Ibid.* If Congress had intended "to depart from established principles" and base

injunctive relief on a different standard, it would have made that intention manifest. *Id.* at 313.[10]

The Federal Circuit, in this case as well as others, has not explicitly recited the traditional four-factor test when reviewing a district court's grant or denial of permanent injunctive relief.[11] The court of appeals' failure to do so in a particular case is not itself a basis for reversal. Nevertheless, the court of appeals' analysis would proceed in a more disciplined fashion if the court expressly applied the abuse-of-discretion standard with explicit reference to the traditional four-factor test, which provides the requisite framework for evaluating the distinct considerations that apply to patent claims.[12]

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[10] Congress has exercised that prerogative in the patent context in certain limited respects. Most significantly, Congress has eliminated the district courts' jurisdiction in equity to enjoin the infringement of a patent by the federal government (or its officers or agents, or contractors). See 28 U.S.C. 1498(a). As this Court has recognized, Section 1498(a) explicitly limits plaintiffs alleging federal government infringement to remedies at law. See *Crozier* v. *Fried. Krupp Aktiengesellschaft*, 224 U.S. 290, 306-309 (1912); see also *Florida Prepaid Postsecondary Educ. Expense Bd.* v. *College Sav. Bank*, 527 U.S. 627, 648 n.11 (1999). The Federal Circuit has appropriately applied that provision to hold that, even after obtaining a verdict of infringement, a patentee cannot prevent a manufacturer from supplying infringing devices to the government. See *W.L. Gore & Assocs.*, 842 F.2d at 1282-1283.

[11] In contrast, the Federal Circuit routinely cites a similar four-part test in reviewing the grant or denial of preliminary injunctions. See, *e.g.*, *Reebok Int'l, Ltd.* v. *J. Baker, Inc.*, 32 F.3d 1552, 1555 (Fed. Cir. 1994); *Illinois Tool Works, Inc.* v. *Grip-Pak, Inc.*, 906 F.2d 679, 681 (Fed. Cir. 1990); *Hybritech Inc.* v. *Abbott Labs.*, 849 F.2d 1446, 1451 (Fed. Cir. 1988). As this Court has explained, "[t]he standard for a preliminary injunction is essentially the same as for a permanent injunction with the exception that the plaintiff must show a likelihood of success on the merits rather than actual success." *Amoco Prod. Co.*, 480 U.S. at 546 n.12.

[12] As a prerequisite to any equitable relief, a court must also consider any traditional defenses to equitable relief, such as laches or unclean hands. The Federal Circuit routinely addresses such matters. See, *e.g.*, *Odetics, Inc.*, 185 F.3d at 1272-1273 (patentee not entitled to permanent injunction as to products manufactured during laches period); *Symbol Techs., Inc.* v. *Lemelson Med.*,

1. *Irreparable Injury.* As this Court recognized in *Amoco Production*, some transgressions of legal rights, by virtue of the "nature" of the injury, will often produce "irreparable" consequences. 480 U.S. at 545. Infringement of a valid patent typically falls within that category. By definition, infringement deprives a patentee of its "right to exclude others from making, using, offering for sale, or selling the invention," 35 U.S.C. 154(a)(1), which in turn may result in "irreparable injury" by denying the patentee, for some unrecoverable period of time, the only legal right that a patent conveys. See *Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) ("the essence of a patent grant is the right to exclude others from profiting by the patented invention"); *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 510 (1917) ("It has long been settled that the patentee receives nothing from the law which he did not have before, and that the only effect of his patent is to restrain others from manufacturing, using or selling that which he has invented.").

The prospect that infringement will produce irreparable harm arises whether the patentee actually uses its invention or licenses others to do so. Infringement may alter the marketplace in ways that cannot be readily restored, by affecting, for example, market share, reputation for innovation, and intangible competitive opportunities, such as the opportunity to be first to market with a particular technology, to establish a particular technology as a de facto industry standard, or to develop and patent further improvements to the original design. Accordingly, a patentee that has obtained a judicial determination of continuing infringement of a valid patent can

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Educ. & Research Found., 422 F.3d 1378, 1384-1385 (Fed. Cir. 2005) (prosecution laches barred enforcement of patent); see also *A.C. Aukerman Co.* v. *R.L. Chaides Const. Co.*, 960 F.2d 1020, 1039-1043 (Fed. Cir. 1992) (en banc) (contrasting the doctrines of laches and equitable estoppel in patent law); *Monsanto Co.* v. *McFarling*, 363 F.3d 1336, 1341-1342 (Fed. Cir. 2004) (discussing patent misuse).

normally make a strong showing of "irreparable harm" based upon its statutory right to exclude others from using or selling the invention.[13]

2. *Inadequacy of Legal Remedies.* As this Court also noted in *Amoco Production*, there are some transgressions of legal rights that, by their "nature," can "seldom be adequately remedied by money damages." 480 U.S. at 545. The financial consequences of patent infringement, which denies the patentee the economic reward that spurs innovation, see, *e.g.*, *Mazer* v. *Stein*, 347 U.S. 201, 219 (1954); cf. Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* 73-74 (1942), are theoretically remediable through monetary damages. But even if damages were a permissible substitute for the patentee's prospective right to exclude, the quantification of those damages, in the form of a "reasonable royalty," see 35 U.S.C. 284, can be fraught with difficulty. See generally 7 Donald S. Chisum, *Chisum on Patents* § 20.03[3] (1999 & 2005 Supp.).[14]

Courts have no choice but to quantify monetary damages for past infringement. See *Atlas Powder Co.* v. *Ireco Chems.*,

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[13] The Federal Circuit has repeatedly stated, in the preliminary injunction context, that a showing of continuing infringement "raises a presumption of irreparable harm to the patentee" that, although "rebuttable," nevertheless "shifts the ultimate burden of production on the question of irreparable harm onto the alleged infringer." *Reebok Int'l Ltd.*, 32 F.3d at 1556; see, *e.g.*, *Smith Int'l Inc.*, 718 F.2d at 1581. This Court has made clear, however, that such presumptions are "contrary to traditional equitable principles." See *Amoco Prod. Co.*, 480 U.S. at 545. The party seeking equitable relief ordinarily bears the burden of demonstrating that the relief is warranted. See *Romdean* v. *Mosinee Paper Corp.*, 422 U.S. 49, 61 (1975). Nevertheless, continuing infringement that denies the patentee its right to exclude is powerful evidence of irreparable harm.

[14] See, *e.g.*, *Riles* v. *Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed. Cir. 2002); *Panduit Corp.* v. *Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1158 (6th Cir. 1978); see also 2 John W. Schlicher, *Patent Law: Legal and Economic Principles* §§ 9:2, 9:77-9:81 (2d ed. 2004).

773 F.2d 1230, 1233 (Fed. Cir. 1985); 35 U.S.C. 284. But the availability of prospective injunctive relief will normally weigh against the substitution of a court-imposed "reasonable royalty" for future use, which could be analogized to inequitable "compulsory licens[ing]." See *ibid.*[15] Congress has consistently turned aside proposals to adopt broad-based compulsory licensing schemes. See *Dawson Chem. Co.*, 448 U.S. at 215 n.21; *Hartford-Empire Co.* v. *United States*, 323 U.S. 386, 417 n.18, 433 n.27 (1945) (collecting examples).[16] In addition, the United States has entered into international treaties respecting intellectual property that preserve the patentee's right to exclude and that limit compulsory licensing.[17] In light of such congressional concerns and international agreements, the courts, at a minimum, should be cautious in awarding monetary damages as a substitute for prospective injunctive relief.

3. *Balance of Hardships.* As this Court has recognized, equity does not require a court to "restrain an act the injurious consequences of which are merely trifling." *Weinberger*, 456 U.S. at 311 (citation omitted); see *Amoco Prod. Co.*, 480 U.S. at 545. When the patent litigants present legitimately

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[15] See *In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litigation*, 831 F. Supp. 1354, 1397 (N.D. Ill. 1993) ("The actual market beats judicial attempts to mimic the market every time, making injunctions the normal and preferred remedy."), aff'd, 71 F.3d 1573 (Fed. Cir. 1995); but see *Foster* v. *American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir.) (allowing compulsory royalties), cert. denied, 419 U.S. 883 (1974).

[16] Congress has authorized the unconsented use of patented inventions in only limited circumstances involving the federal government, 28 U.S.C. 1498(a), or narrow fields of technology, *e.g.*, 42 U.S.C. 2183 (patents related to atomic energy); 42 U.S.C. 7608 (patents related to certain air-pollution control technologies).

[17] See, *e.g.*, TRIPS Agreement, arts. 28, 31, 33 I.L.M. at 94-95; U.S.-Australia Free Trade Agreement, May 18, 2004, art. 17.9, ¶ 7 <http://www.ustr.gov/assets/Trade_Agreements/Bilateral/Australia_FTA/Final_Text/Section_Index.html>.

competing claims of injury, the court should consider whether injunctive relief fairly "balances the conveniences of the parties and possible injuries to them." *Weinberger*, 456 U.S. at 312 (citation omitted). The balance of hardships invariably depends on a fact-specific inquiry that may weigh in favor of, or against, injunctive relief in a particular patent case. As a general matter, and absent countervailing evidence, it favors structuring injunctive relief to protect the patentee's judicially validated right to exclude without subjecting the infringer to disproportionately injurious consequences. Moreover, the balance of hardships inquiry can consider actions of the patentee that, while not rising to the level of providing a defense to equitable relief, nonetheless counsel against enjoining defendants who have acted in good faith. The balance-of-hardships inquiry can temper the hardship that might otherwise fall on a non-willful infringer, particularly one that has in good faith invested effort or capital without knowledge of the infringement. By contrast, that inquiry correspondingly disfavors the willful infringer.

4. *Public Interest.* This Court has repeatedly acknowledged "the important role of the 'public interest' in the exercise of equitable discretion." *Amoco Prod. Co.*, 480 U.S. at 545. In patent litigation, there is a general public interest in "maintaining the integrity of the patent system," *Odetics*, 14 F. Supp. 2d at 795.[18] Nevertheless, the public interest may

[18] As the Court explained in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989), the federal patent system "embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years." *Id.* at 150-151. Thus, while the public may have discrete interests in unbroken access to a particular invention that militate against injunctive relief in a particular case, in the ordinary case the enforcement in equity of a patentee's exclusive right to the invention generally advances the public interest, as identified by Congress, by guaranteeing to the patentee the benefit of the basic bargain reflected in the patent system. See *id.* at 151.

weigh against an injunction that would "frustrat[e] an important public need for the invention." *Rite-Hite Corp.* v. *Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir.), cert. denied, 516 U.S. 867 (1995). As in the case of balancing hardships, the inquiry will depend crucially on a fact-specific inquiry. The question is not whether injunctive relief would merely inconvenience third parties, but rather whether such relief would undermine an identifiable public interest in the realm of national security, public health or safety, the operation of commerce, or other comparable areas of vital concern to innocent third parties or the public at large. See IBM Br. 21-23; Securities Industry Ass'n (SIA) Br. 6-10; Business Software Alliance (BSA) Br. 29-30.

C. The Granting Or Withholding Of Injunctive Relief Should Turn On The Facts Of Each Case Rather Than On General Policy Concerns Respecting Potential Abuse Of The Patent System

Petitioners and many amici express concern that the Federal Circuit's allegedly "automatic" or "near automatic" injunction rule in patent cases invites abusive litigation and stifles innovation. See, *e.g.*, Pet. Br. 24-25; Time Warner Br. 8-25; BSA Br. 7-12; American Innovators' Alliance (AIA) Br. 22-30. Those entities may overstate the extent to which the Federal Circuit has, in fact, adopted an "automatic" or "near-automatic" patent injunction rule. But, in any event, they raise valid concerns that an automatic injunction rule has no place in the inherently discretionary inquiry into the appropriateness of injunctive relief and that unjustified or overly broad injunctive relief *in particular cases* can produce abuses that impair competition and innovation. The solution lies, first, in the district courts' careful application of the familiar four-factor test for equitable relief; and second, in the Federal Circuit's review of the district courts' determinations of ap-

propriate relief under the abuse-of-discretion standard. See pp. 11-20, *supra*.

A more exacting application of traditional equitable principles will properly foreclose, or limit the scope of, injunctive relief in appropriate cases. A careful application of those principles would ameliorate, for example, the so-called "hold-up" and "patent thicket" scenarios, in which an opportunistic patentee may theoretically exploit the additional leverage afforded by an injunction to extract "windfall" or "in terrorem" settlements far out of proportion to the value of the patent at issue. See, *e.g.*, Pet. Br. 34, 47, 49; Time Warner Br. 8-12; BSA Br. 5-12; SIA Br. 18-19; Computer & Communications Indus. Ass'n Br. 2-3, 7-8; AIA Br. 25-29; see generally *FTC Report* ch. 2, at 25-29; *id.* ch. 3, at 34-41, 51-53.[19] In such a scenario, a district court might properly conclude, after taking account of the balance of hardships and the public interest, that injunctive relief is inappropriate.[20]

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[19] A hold-up scenario might arise, as one example, in the case of the implementation of industry standards. A patentee may assert that its patents cover government-mandated or industry-adopted technical standards, such that every economically feasible implementation of the standard necessarily infringes the patent. See generally Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 Cal. L. Rev. 1889 (2002); Janice M. Mueller, *Patenting Industry Standards*, 34 J. Marshall L. Rev. 897 (2001); see also *Rambus Inc.* v. *Infineon Techs. AG*, 318 F.3d 1081, 1107-1109 (Fed. Cir. 2003) (Prost, J., dissenting in part) (describing a hold-up scheme).

[20] See *Weinberger*, 456 U.S. at 311-312 (the remedy of injunction is not available "to restrain an act the injurious consequences of which are merely trifling" (quoting *Consolidated Canal Co.* v. *Mesa Canal Co.*, 177 U.S. 296, 302 (1900))). The "hold-up" problem is not a new concern in patent law, and federal courts have in the past exercised their discretion to deny equitable relief in appropriate cases. *E.g.*, *Hoe* v. *Boston Daily Advertiser Corp.*, 14 F. 914, 915 (C.C.D. Mass. 1883) (denying an injunction because the harm to the defendant would be severe, and "[t]he only advantage which the plaintiffs could derive from an injunction, would be to put them in a better situation * * * for the further conduct of [license] negotiation[s]").

Petitioners' and the amici's concerns extend, of course, to other scenarios apart from the "hold-up" and "patent thicket" problems, ranging from the practice of "submarine patenting" (*e.g.*, AIA Br. 27-28) to the emergence of opportunistic "patent litigation" entities (*e.g.*, BSA Br. 12-18). Although a proper application of traditional equitable principles should serve to alleviate those concerns to a significant extent, they raise questions that reach well beyond the specific issues in this case and may implicate concerns better addressed through targeted legislation than through general statements about the proper application of the four-factor test to scenarios not before the Court.[21] The potential for abuse should not obscure the reality that continuing infringement of a valid patent *typically* produces irreparable injury that is not readily compensable through a court-imposed prospective royalty and that the public and private equities frequently weigh in favor

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[21] In some such cases, the patent law already provides potential solutions. See, *e.g.*, *Symbol Techs., Inc.*, 422 F.3d at 1384-1385 (where the patentee purposefully delayed issuance of patent claims to ambush infringers, the equitable doctrine of prosecution laches barred enforcement of the patent); *In re Bogese*, 303 F.3d 1362 (Fed. Cir. 2002) (affirming PTO's application of prosecution laches); see also PTO, *Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims*, 71 Fed. Reg. 48 (2006) (proposing guidelines to minimize delays in issuance of patents). In other cases of apparent inequity, the underlying concerns may arise from patentability standards that extend protection to discoveries that allegedly fail to satisfy the statutory criteria for patentability, and are best addressed (if at all) by reference to those standards rather than by adjusting the rules governing the availability of injunctive relief for valid patents. See, *e.g.*, *FTC Report* Executive Summ. at 8-12, 14-15 (FTC recommendations for patent reform, including elimination of "clear and convincing evidence" burden of proof for patent invalidity and modification of test for nonobviousness); Pet. for Cert. in *KSR Int'l Co.* v. *Teleflex Inc.*, 126 S. Ct. 327 (2005) (No. 04-1350) (requesting United States' views on test for nonobviousness). And in still other cases, the problem may lie in the need for legislation to address policy concerns that are beyond the purview of the courts. See *FTC Report* Executive Summ. at 7-8, 12-14, 15-17 (FTC's recommendations for administrative and legislative reform).

of injunctive relief. Curtailing the traditional availability of equitable relief in *those* circumstances will disrupt settled law and investment-backed expectations without solving much-mooted problems that are not presented by this case.

D. Although The Court Of Appeals Did Not Recite The Governing Equitable Principles, It Correctly Concluded That The District Court Abused Its Discretion In Denying A Permanent Injunction In This Case

The court of appeals did not recite or explicitly apply the traditional four-part test that governs the district court's exercise of equitable discretion, but it properly concluded that the district court abused its discretion by relying on inappropriate considerations in withholding equitable relief. Because this Court "reviews judgments, not statements in opinions," the court of appeals' judgment should be affirmed, and the case should be returned to the district court for entry of an appropriately tailored injunction. *E.g.*, *Johnson* v. *De Grandy*, 512 U.S. 997, 1003 n.5 (1994) (citations omitted).[22]

1. *MercExchange's Willingness to License its Patents Does Not Establish a Lack of Irreparable Harm or the Adequacy of Legal Remedies.* The district court abused its dis-

[22] There is no merit to petitioners' objection (Pet. Br. 29) that the court of appeals improperly applied a "de novo" standard of review. The Federal Circuit has made clear that it reviews a district court's grant or denial of injunctive relief under an abuse-of-discretion standard. See, *e.g.*, *Odetics*, 185 F.3d at 1272; *Johns Hopkins Univ.* v. *Cellpro, Inc.*, 152 F.3d 1342, 1354 (1998); *Jog Techs., Inc.* v. *Flakt, Inc.*, 6 F.3d 770 (Fed. Cir. 1993); *Ortho Pharm. Corp.* v. *Smith*, 959 F.2d 936, 945 (Fed. Cir. 1992). "An abuse of discretion may be established by showing that the district court either made a clear error of judgment in weighing relevant factors, or exercised its discretion based on an error of law or on findings which were clearly erroneous." *Jog Techs.*, 6 F.3d at 772. Although the court of appeals did not explicitly state that it was applying the abuse-of-discretion standard in this case, its analysis is consistent with that standard, because the court rested its decision on the district court's legal errors in relying on improper factors and in giving potentially relevant factors undue weight. See Pet. App. 26a-28a.

cretion by accepting petitioners' submission that MercExchange's willingness to license its patents, as reflected in its public statements and commercial actions, is "sufficient" to establish that MercExchange will not "suffer irreparable harm if the injunction does not issue," Pet. App. 55a, and that monetary damages can provide "an adequate remedy at law," *id.* at 56a. A patentee's willingness to license its inventions and its behavior in doing so are not irrelevant to a district court's inquiries into "irreparable harm" and "adequacy of legal remedies," and those considerations may in some circumstances support a determination that the prerequisites for equitable relief have not been established, but they provide no basis in this case for concluding that the harm is reparable and damages will suffice.[2]

The district court's error rested in treating a patentee's willingness to provide its inventions on negotiated terms to selected licensees as surrendering more generally the patentee's statutory right to exclude others. The district court simplistically treated patent licensing agreements as merely fixing a general royalty rate for unrestricted use of the patent. But patentees frequently structure licensing agreements to accomplish a variety of purposes apart from pure remuneration for use. A patentee may seek, for example, to establish incentives for particularly profitable uses of the invention; promote widespread acceptance of the technology in order to make related products more attractive or successful; promote its own brands by requiring licensees to display its trademarks on products incorporating the licensed technology; mitigate the risk of "blocking patents" by requiring licensees

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[2] A patentee's willingness to license is most likely to be relevant when the patentee broadly engages in unrestricted, nonexclusive licensing in exchange for fixed compensation, which could suggest that the patentee may be adequately compensated, on a prospective basis, by charging the infringer an appropriate royalty. But that is not the situation here.

to grant back to the patentee a nonexclusive license to any improvements it may develop; and carefully select its licensees to protect the reputation of the products and services associated with the patent and thus with the inventor. See, *e.g.*, *Licensing Guidelines* § 2.3, at 20,733.

In this case, MercExchange's licensing agreements contained specific conditions and limitations.[24] Accordingly, MercExchange's practice of licensing, without more, does not provide an adequate basis for concluding that the harm from infringement is reparable and money damages are an adequate recompense for an infringer's unrestricted use of the patent. Pet. App. 27a. A contrary result could deter economically efficient licensing arrangements, as patentees might be unwilling to enter into individually tailored licensing arrangements if an adjudicated infringer could later seize upon their willingness to license as a basis for denying injunctive relief.[25]

2. *The Concerns Associated with Business-Method Patents Do Not Establish a Public Interest in Denying Injunctive Relief.* The district court also abused its discretion in relying on the "growing concern over the issuance of business-method patents" (Pet. App. 57a) to offset the normal understanding that the public interest favors "granting an injunction to protect the plaintiff's patent rights" (*id.* at 58a). The court of appeals correctly observed that a "general concern regarding business-method patents * * * is not the

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[24] The AutoTrader license, for example, was restricted to a particular field of use and conditioned the licensee's payment of royalties on MercExchange's prevention of infringement. See J.A. 493-512.

[25] As the court of appeals noted (Pet. App. 27a-28a), the district court also erred in relying on the plaintiff's failure to seek preliminary injunctive relief as indicative of the absence of irreparable harm (*id.* at 55a). While the preliminary injunction standard is similar to that for a permanent injunction, see note 11, *supra*, the remedies serve distinct purposes, and litigants are not obligated to seek preliminary relief to ensure their right to permanent relief. See Pet. App. 27a-28a; *Lermer Germany GmbH*, 94 F.3d at 1577.

type of important public need that justifies denying injunctive relief." *Id.* at 26a. Whatever the merits and proper scope of patent protection for business-method patents, this case presents no opportunity to consider those issues, because petitioners have not preserved a challenge to the validity of the '265 patent. In the present posture of this case, therefore, MercExchange's patent is entitled to legal protection, and the district court abused its discretion in relying on concerns about patent validity as a basis for withholding injunctive relief. While Congress could provide different forms of relief for different classes of patents, it has not done so here, and the "public interest" standard is not an adequate substitute for such targeted legislation.

Petitioners conspicuously do not defend the district court's analysis regarding business-method patents, endorsing only the "general direction" of the court's reasoning. See Pet. Br. 40. Petitioners instead suggest (*id.* at 39, 40-41, 49) that "there might not be a valid patent to vindicate" because the PTO has provisionally determined, in *ex parte* reexamination proceedings begun after the district court's judgment, that the patent claims at issue in this litigation are invalid. See generally 35 U.S.C. 301-307 (2000 & Supp. II 2002).[26] That argument, however, places inappropriate weight on the provisional results of the PTO reexamination proceedings, which have not yet culminated in a final agency decision, much less a final determination of invalidity. See 35 U.S.C. 134, 141, 306 (2000 & Supp. II 2002) (provisions governing

[26] PTO reexamination is an administrative proceeding that may, but need not, result in the limitation or cancellation of some or all of the claims in a patent. The Patent Act authorizes two types of reexamination proceedings: *ex parte* reexaminations, which permit only limited participation by a third-party requester, see 35 U.S.C. 301-307 (2000 & Supp. II 2002); and *inter partes* reexaminations, which resemble adversarial administrative litigation, see 35 U.S.C. 311-318 (2000 & Supp. II 2002). The reexamination in this case, like most reexaminations conducted by the PTO, is of the *ex parte* variety.

administrative and judicial appeals from reexamination proceedings). The mere pendency of a non-final reexamination proceeding merits no particular weight in a district court's equitable calculus under Section 283. The existence of such a proceeding by itself implies nothing meaningful about its likely outcome, and a contrary rule would needlessly encourage infringement defendants to request reexamination proceedings merely to forestall a permanent injunction. See 35 U.S.C. 302, 311 (2000 & Supp. II 2002) (authorizing third party requests for reexamination).[7]

3. *The Possibility of Contempt Proceedings Does Not Tip the Balance of Hardships in Favor of Petitioners.* The district court further abused its discretion by giving inordinate weight, in balancing the hardships between the parties, to the prospect that issuance of an injunction following contentious litigation would lead to burdensome contempt proceedings. Pet. App. 58a-59a. As the court of appeals explained, district courts adjudicating patent cases regularly encounter continuing disputes over compliance with resulting injunctions. *Id.* at 27a. It is incongruous to conclude that the prospect of such disputes favors the infringer and weighs against the issuance of otherwise warranted equitable relief. Indeed, if anything, the live prospect of future contempt proceedings would seem to bolster the case for injunctive relief. Petitioners, moreover, were found to have *willfully* infringed MercExchange's

[7] There is no question that, if the PTO reexamination proceedings culminate in a final order of invalidity, MercExchange would have no right to any remedy for infringement because there would be no valid patent to be infringed, and any injunction previously granted would be subject to vacatur. But the pendency of the ongoing proceedings has no bearing on the remedial issues before this Court. If this Court affirms the court of appeals' judgment, the district court, on remand from the court of appeals' mandate, would have discretion to consider whether to stay or condition the remedy pending the outcome of the reexamination. See *Slip Track Sys., Inc.* v. *Metal Lite, Inc.*, 159 F.3d 1337, 1341 (Fed. Cir. 1998); cf. 35 U.S.C. 318 (expressly authorizing stays pending resolution of *inter partes* reexamination proceedings).

patents and therefore are in a poor posture to complain about the burdens that compliance might pose. Finally, as the court of appeals observed, in the absence of an injunction, such disputes would still "be likely to continue," but in the more burdensome form of "successive infringement actions." *Id.* at 27a. Requiring MercExchange, which proved its claim of willful infringement after protracted litigation, with the obligation to bring new infringement actions inequitably balances the hardships in this case.

4. *The District Court Retains Discretion on Remand to Accommodate the Parties' Respective Interests by Adjusting the Terms of the Injunction.* Petitioners' suggestions that the issuance of an injunction will have draconian consequences overlooks the power of the district court, on remand, to accommodate a wide variety of objections through careful formulation of the terms of an injunction. The court of appeals' judgment does not constrain the district court from exercising discretion on remand in issuing injunctive relief "on such terms as the court deems reasonable." 35 U.S.C. 283. The district court has ample discretion to accommodate petitioners' legitimate concerns without denying to the patent owner the "traditional remedy" against infringement. *Dawson Chemical*, 448 U.S. at 197; see *Hecht* v. *Bowles*, 321 U.S. 321, 329 (1944) ("The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it."). In this case, the court of appeals did not dictate the particular terms of an injunction, but instead—and consistent with its limited role under the abuse-of-discretion standard—reversed the district court's denial of MercExchange's motion for permanent injunctive relief and remanded for further proceedings. See Pet. App. 3a, 28a. This Court should affirm that judgment, which pre-

serves the district court's ample latitude to craft an injunction sensitive to the parties' (and the public's) legitimate concerns.

II. THIS COURT NEED NOT OVERRULE ITS DECISIONS ADDRESSING WHEN AN INJUNCTION MAY ISSUE AGAINST A PATENT INFRINGER

The Court has directed the parties to address the additional question whether the Court should reconsider its past decisions, including *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), that discuss the standards governing issuance of injunctive relief in patent cases. There is no warrant for this Court to overrule those decisions.

The Court's decision in *Continental Paper Bag* addresses the question whether a court may enjoin patent infringement when the patentee has "unreasonab[ly]" failed to practice its own invention. 210 U.S. at 429-430. After an extensive discussion, the Court ruled that an injunction should issue, concluding that the patentee's failure to practice its invention did not preclude it from enforcing its statutory right to exclude others from using its discovery. *Ibid.* The right to exclude others, the Court observed, is "the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive." *Id.* at 429. Accordingly, the Court explained, a patentee will normally obtain equitable relief, at least in cases of continuing infringement, even if the patentee does not itself practice the invention. *Id.* at 430. Nevertheless, the Court's concluding statement left open the possibility that a case could arise "where, regarding the situation of the parties in view of the public interest, a court of equity might be justified in withholding relief by injunction." *Ibid.*

The Court's decision in *Continental Paper Bag* arguably contains questionable dicta that could be read to support an erroneous rule of automatic or nearly automatic injunctive

relief, but its central holding is sound. That holding, which the Court has repeatedly endorsed, is consistent with 35 U.S.C. 283, as well as with the collective experience of the federal courts in applying the principles of equity to patent disputes. See, *e.g.*, *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969); *Special Equip. Co.* v. *Coe*, 324 U.S. 370, 378-379 (1945); *Crown Die & Tool Co.* v. *Nye Tool & Mach. Works*, 261 U.S. 24, 34-35 (1923). Furthermore, the Court's holding is consistent with the Patent Misuse Reform Act of 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4676, which makes clear that no patentee otherwise entitled to relief from infringement "shall be denied relief" merely by having "refused to license *or use* any rights to the patent." 35 U.S.C. 271(d)(4) (emphasis added). Cf. *Illinois Tool Works, Inc.* v. *Indep. Ink, Inc.*, No. 04-1329 (Mar. 1, 2006), slip op. 12-13.

As the Court's final observation in *Continental Paper Bag* makes plain, that decision does not announce any categorical rule *requiring* injunctive relief in all patent cases. See 210 U.S. at 430; see also *Special Equip. Co.*, 324 U.S. at 379; *Rite-Hite*, 56 F.3d at 1547. Rather, it preserves the equity court's traditional discretion to grant or withhold injunctive relief based on application of the well-established four-factor test, subject to review for abuse of discretion. The holding in *Continental Paper Bag* is accordingly consistent with the proper outcome in this case and should not be set aside.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

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